IDEA CORPORATION

ANNUAL REPORT

1985

CHAIRMAN'S REVIEW

IDEA Corporation, a Crown agency of the Government of Ontario reporting to the Minister of Industry, Trade and Technology, works to promote and finance the commercial development of new technologies.

When the Corporation's first business plan was being developed in late 1982, we were breaking new ground in the area of financing technological innovation. Based on our experience over the past few years, we have identified two strategic gaps in the innovation process where private sector support is weakest and the need for IDEA Corporation's assistance is greatest: the provision of financial and management assistance to early-stage projects emanating from Ontario's research institutions and the provision of investment capital for young technology-based companies.

Innovation Assistance

As of March 31, 1985, IDEA had committed approximately $1.3 million from its Research Investment Fund to seed capital projects developed at universities, hospitals and private research institutions in Ontario. The objective is to bring these projects to the point where traditional sources of finance will continue their development. Typically, initial investments by IDEA in this area are quite small, with additional commitments being made when successful milestones such as the development of prototypes, the filing of patents or the completion of business plans are reached. One example of such a project is DALSA Inc., a company formed by two professors from the University of Waterloo which is developing innovations in the field of solid-state imaging technology. IDEA's financing has been used for the ongoing development of a new light-sensitive microelectronic chip, with multiple applications such as robot vision systems and solid-state cameras.

Since the end of the fiscal year, new and additional commitments of $2.6 million have been made to early-stage projects. Of particular interest is IDEA's investment in Cyberfluor Inc., a company emerging from the Hospital for Sick Children's Research Development Corporation. The company will use IDEA's funding to develop and market a new immunoassay system for clinical laboratories which includes an immunoanalyser, a robot to prepare samples for analysis, and software to operate all components of the system and to store and manipulate data from the assays.

The process of helping to commercialize early-stage research projects is now being assisted by the IDEA-sponsored Commercial Development Officers Program, a major $3 million initiative announced in last year's Annual Report. Currently, agreements have been signed with eight Ontario universities to support the work of these officers, over a three year period, in the identification and development of projects with outstanding commercial potential. It is expected that two other universities will join the program over the next few months, thereby completing the $3 million commitment. To complement the CDO Program, two experimental seed finance funds were established at the University of Toronto and York University in the summer of 1985. These funds are being used for technical assessments, business plans, marketing studies and patent applications for innovative university projects with commercial promise.

Another initiative announced in last year's Annual Report is the Inventors Assistance Program under which IDEA has worked in cooperation with the Canadian Industrial Innovation Centre in Waterloo to help inventors commercialize their ideas. Since the program's inception, IDEA has funded forty-one "custom evaluations" which consist of patent searches, consultations with experts and recommended development plans for the inventions. A similar program is being undertaken by IDEA to provide funding to entrepreneurs for the development of business plans which will help them to obtain financing from private sector sources.

Venture Investment

In the venture investment category, IDEA committed almost $4 million in 1984/85 to direct investment in technology-based companies in such fields as medical instrumentation, microelectronics and software. The total of new and additional commitments since that time is approximately $4.2 million.

IDEA's investment of $650,000 in Nepean-based Telemus Electronics Systems Inc. has been used to successfully start up that company and launch its first product in the field of advanced microwave communications -- the frequency halver. Other investments include a new electronic pricing and merchandising system for retail stores developed by Telepanel Inc., a new medical device to assist in the treatment of fractured joints developed by Toronto Medical Corporation and a series of commitments to support the burgeoning software industry in Ontario.

IDEA Corporation is currently participating with several major corporations and pension funds in one syndicated fund, Middlefield Capital Fund, for the purpose of investing in a range of information-related technologies. IDEA has committed $10 million to this $32 million fund. Middlefield has spent the past year building its initial investment portfolio, which now includes several high technology companies. In July of this year, IDEA sold its $2.856 million equity shareholding in its other syndicated fund, Derlan Industries Limited, to the company's existing shareholders and directors at a profit of $243,574.00. IDEA Corporation's commitment of $7.125 million contributed to the successful launching of this company, set up to invest in growth and development opportunities in the secondary manufacturing sector. At the time of the sale, Derlan had invested in four Ontario-based companies. IDEA plans to redeploy the funds from the sale of its Derlan shares in early-stage investments.

Over the next few years, IDEA intends to move away from its initial plans to syndicate large funds in various technological sectors. However, the Corporation will participate, wherever possible, with private sector investors on an individual project basis.

Technology Transfer

As a complement to IDEA's investment activities, a technology transfer group was formally established within the Corporation in the summer of 1984. Since that time, this group has focused on identifying and exploring licensing exits for IDEA's early-stage investments, including the Cardionatrin project at Queen's University.

Subsequent to the end of the fiscal year, IDEA Corporation completed negotiations to attract Fischbach BG of West Germany to Ontario through a joint venture arrangement with one of IDEA's initial investees, Genuine Plastics Products Limited of Scarborough. Fischbach BG has absorbed Genuine Plastics' existing business and will invest, during the next two years, over $1 million in a new Ontario-based production plant. Fischbach possesses world-class technology in the area of injection moulding and printing, and the new company is expected to create 35-40 new jobs over the next few years. IDEA has recovered $80,000 of its original investment; the remaining $30,000 was used to fund initial product development.

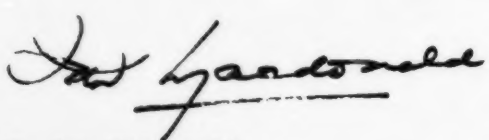
Policy Analysis and Public Education

Several major activities were launched over the past fiscal year in this area. A consortium, consisting of IDEA and three corporate partners, was created by IDEA to support an annual survey of technical skills required by Ontario industry. The first report, to be published this fall, is based on a representative survey of Ontario firms which employ scientists, engineers and technologists. Also, during the past year, IDEA published a background study comparing the scientific research excellence of a number of Ontario and American universities; the study was based on an earlier analysis jointly commissioned by IDEA and the Commission on the Future Development of the Universities of Ontario (the Bovey Commission). In addition to such regular communications activities as the publication of newsletters profiling key Ontario innovators and policy issues associated with the promotion of new technologies, IDEA sponsored two major conferences in 1984/85 -- "Investing in Canadian Biotechnology" and "The University-Industry Alliance in Ontario."

Future Directions

In July 1985, IDEA's Board of Directors recommended the appointment of a new President for the Corporation, Mr. Harold W. Blakley, under whose direction a revised business plan and streamlined investment-making process have been developed and are being implemented.

In closing, I would like to take this opportunity to extend my appreciation to those members of the Board whose terms have concluded and, on behalf of the Board, to thank all employees, past and present, for their diligence and support of the Corporation over the past year.



H. Ian Macdonald
Chairman

September 18, 1985

INVESTMENTS AT SEPTEMBER 13, 1985

INNOVATION ASSISTANCE

INVESTMENT	TECHNOLOGY OR PRODUCT	TOTAL COMMITMENT
Debt Instruments and Equity Investments		
Cyberfluor Inc.	Diagnostic immunoassay system for clinical laboratories	$ 2,002,003
DALSA INC.	Patented electronic imaging system	634,660
Hevmet Recovery Limited	Recovery of heavy metals from industrial wastes	50,000
Research and development projects		
Lakehead University (Wallhead Pin)	Surgical drain pin	25,000
Ligna Technologies Ltd.	Innovation in waste paper board	37,825
Queen's University (Cardionatrin)	Development of new pharmaceutical for control of blood pressure	948,700
Toronto General Hospital	Diagnostic system for osteoporosis	50,000
University of Western Ontario	New organogold derivatives for the electronics industry	98,500
Commercial Development Officer Program		
Carleton U.	To finance professional staff members at Ontario universities to identify and support commercially significant innovations	300,000
Lakehead U.		150,000
Queen's U.		300,000
U. of Guelph		300,000
U. of Ottawa		300,000
U. of Toronto		300,000
U. of Waterloo		300,000
U. of Western Ontario		300,000
Seed Financing Fund		
University of Toronto	To finance commercial investigations for research projects	100,000
York University		50,000
Total (Innovation Assistance)		6,246,688

VENTURE INVESTMENTS

INVESTMENT	TECHNOLOGY OR PRODUCT	TOTAL COMMITMENT
Debt Instruments and Equity Investments		
628648 Ontario Ltd. (Cals Lens)	Bifocal contact lenses	$ 100,000
630341 Ontario Inc. (Waterloo Engineering Software)	Development and marketing of software products	5,000
Ion-Guard Canada Limited	Theft deterrent system	25,000
Graham Software Inc.	Software marketing and distribution services	3,000,000
Micro-Master Development Corporation	Data base application generator	100,000
Neo-Visuals Inc.	Computer program for 3D computer graphics	89,000
R & L Filtration Ltd.	Filtration system for mine tailings and municipal wastes	772,054
RMS Industrial Controls Inc.	Advanced radio communications and control systems	650,000
Starnav Corporation	Satellite navigation system	250,000
Synerlogic Inc.	Data processing consulting and software products	225,000
Telemus Electronic Systems Inc.	Microwave integrated circuits	656,139
Telepanel Inc.	Electronic shelf pricing and merchandising systems for grocery stores	1,000,072
Toronto Medical Corporation	Continuous passive motion devices for treatment of joint fractures	494,823
Ventura Technologies Corp.	CADD work-station	800,000
Syndicated Fund		
Middlefield Capital Fund	Syndicated fund	10,016,799
Total (Venture Investments)		18,183,887
TOTAL COMMITMENTS		**$24,430,575**

IDEA CORPORATION

Consolidated Financial Statements
and Report on the Audit
for the year ended March 31, 1985

IDEA CORPORATION
(Incorporated without share capital under
The IDEA Corporation Act, 1981)

Consolidated Balance Sheet
as at March 31, 1985

(with comparative figures as at March 31, 1984)

Assets	1985 $	1984 $
Cash and short term deposits	31,234,154	17,369,061
Due from the Province of Ontario (note 8a)	20,000,000	20,000,000
Interest receivable	8,687	4,760
Recoverable advance	-	718,457
Investments (note 3a)	7,370,544	1,731,246
Prepaid expenses and deposits	50,410	45,779
Fixed assets (note 6)	880,983	1,014,256
Total assets	59,544,778	40,883,559
Liabilities		
Accounts payable and accrued liabilities	178,154	201,498
Outstanding commitments payable	100,000	-
Deferred Province of Ontario operating subsidy	1,945,165	1,358,888
	2,223,319	1,560,386
Equity		
Contributed capital from the Province of Ontario (note 8a)	60,000,000	40,000,000
Deficit	2,678,541	676,827
	57,321,459	39,323,173
Total liabilities and equity	59,544,778	40,883,559

Commitments (notes 3a, 4, 5, 7 and 8b,c)

See accompanying notes and schedule to financial statements.

Approved:

Chairman

Director

IDEA CORPORATION

Consolidated Statement of Operations and Deficit
for the year ended March 31, 1985

(with comparative figures for 1984)

	1985 $	1984 $
Interest income	117,046	147,552
Expenses		
Salaries and employee cost	2,019,074	1,739,233
Legal and audit	226,677	117,970
Consulting		
Project evaluation	64,148	74,992
Policy analysis	28,095	40,525
Other	86,997	113,687
Premises	584,496	455,830
Communications and public relations	224,175	166,503
Directors' fees and other expenses	33,002	27,710
Depreciation	197,370	156,712
General administration	410,360	413,214
Research and development projects funded	475,609	108,422
Commercial Development Officer program (note 4)	262,500	-
Loss on investments (note 3b)	819,980	509,862
	5,432,483	3,924,660
Loss from operations	5,315,437	3,777,108
Province of Ontario operating subsidy	3,313,723	3,100,281
Loss for the year	2,001,714	676,827
Deficit, beginning of year	676,827	-
Deficit, end of year	2,678,541	676,827

See accompanying notes and schedule to financial statements.

IDEA CORPORATION

Consolidated Statement of Changes in Cash Position
for the year ended March 31, 1985

(with comparative figures for 1984)

	1985 $	1984 $
Source of Cash		
Increase in contributed capital	20,000,000	30,000,000
Province of Ontario operating subsidy	3,900,000	3,600,000
Less: Loss from operations	5,315,437	3,777,108
Add : Depreciation	197,370	156,712
Provision for loss on investments	819,980	-
Provided from (used in) operations	(398,087)	(20,396)
Decrease (increase) in other assets	(8,559)	122,413
	19,593,354	30,102,017
Use of Cash		
Increase (decrease):		
Due from Province of Ontario	-	15,000,000
Recoverable advance	(718,457)	718,457
Investments	6,459,278	1,681,246
Additions to fixed assets	64,096	1,126,398
Decrease (increase) in accounts payable and accrued liabilities	(76,656)	26,712
	5,728,261	18,552,813
Net increase in cash	13,865,093	11,549,204
Cash and short term deposits, beginning	17,369,061	5,819,857
Cash and short term deposits, ending	31,234,154	17,369,061

See accompanying notes and schedule to financial statements.

IDEA CORPORATION

Notes to Consolidated Financial Statements
March 31, 1985

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following policies:

(a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries:

IDEA Research Investment Fund Inc.
IDEA Innovation Fund Inc.
IDEA Biological and Medical Technology Fund Inc.
IDEA Chemical and Process Technology Fund Inc.
IDEA Microelectronics Technology Fund Inc.
IDEA Machine and Automation Technology Fund Inc.
IDEA Information Technology Fund Inc.

The operating results of all subsidiaries are included in the consolidated financial statements from the dates of their incorporation.

(b) Investments in debt or equity

Investments are recorded at cost. Cost for debt instruments includes only the funded amount. Cost for equity investments includes the funded amount and any direct expenses, including legal costs. Investments will be written down when, in the opinion of management, there has been a permanent impairment in the value of the investments. The amount of any permanent impairment will be determined by management and may require, due to the early-stage nature of the investments, subjective judgment.

(c) Investments in research and development projects

Funding of research and developments projects are charged to operations as funded unless the project meets generally accepted accounting criteria for deferral and amortization. In the opinion of management, the research and development projects funded to date have not met all the criteria for deferral and amortization. Therefore, all fundings have been expensed as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Fixed assets and depreciation

Fixed assets are stated at acquisition cost. Depreciation is provided on the diminishing balance method at rates of 20 per cent for office furniture and fixtures and computer equipment and 30 per cent for office equipment. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(e) Subsidies

Subsidies from the Province of Ontario in excess of operating losses of the Corporation for the period are deferred and amortized against operating losses as incurred by the Corporation.

(f) Income taxes

The Corporation (and its wholly-owned subsidiaries) as a Provincial Crown Corporation is not subject to income tax.

2. CONTRIBUTED CAPITAL FROM THE PROVINCE OF ONTARIO

Operating and investment funds are paid out of moneys appropriated therefor by the Ontario Legislature. The Province of Ontario has committed funds to flow approximately as follows:

(in $ millions)

1982-83	1983-84	1984-85	1985-86	1986-87	Total
11.7	35.0	30.4	21.5	8.4	107.0

Actual funds contributed were $11.7 million in 1982-83, $33.6 million in 1983-84 and $23.9 million in 1984-85. (See note 8a.)

3. INVESTMENTS AND COMMITMENTS

(a) Investments are structured as notes, convertible loans or debentures, or equity. A summary of the investments and related commitments is set out on the attached schedule.

3. INVESTMENTS AND COMMITMENTS (cont'd)

(b) A provision for loss on investments of $819,980 was recorded in the accounts of subsidiaries during the year for those investments which, in the opinion of management, have experienced a permanent impairment in value. Details are provided in the attached schedule.

4. COMMERCIAL DEVELOPMENT OFFICER ("CDO") PROGRAM AND COMMITMENT

The CDO program is available to Ontario universities for the purpose of acquiring a professional staff member (Commercial Development Officer) dedicated to the identification of commercially significant technology, and to assist the universities in the potential commercialization of these technologies. In return, a subsidiary of the Corporation will receive either: (a) the right of first refusal to commercialize any technology worked on by the CDO, or (b) the right to information relating to the technologies formally screened by the CDO and to keep the subsidiary informed on a timely basis of all projects involving the extensive use of the CDO and for which the universities have received commercialization offers for exploitation.

A total of $3 million has been allocated to the program by the subsidiary over the next 3-year period. Funding is currently provided to six universities on a quarterly basis. The amount committed to these universities, in addition to the $262,500 funded during the year, is $1,387,500. Negotiations are underway with six other universities that would commit the remaining $1,350,000.

5. RESEARCH AND DEVELOPMENT PROJECTS AND COMMITMENTS

Summarized below are the research and development projects which have been funded during the year together with any future funding committed to these projects:

Name	Funded March 31, 1984 $	Funding During the Year $	Funded March 31, 1985 $	Additional Commitment $
Lakehead University	-	8,292	8,292	16,708
Ligna Technologies Ltd.	-	12,875	12,875	-
Queen's University	72,422	454,442	526,864	269,836
University of Western Ontario	36,000	-	36,000	62,500
	108,422	475,609	584,031	349,044

5. RESEARCH AND DEVELOPMENT PROJECTS AND COMMITMENTS (cont'd)

In return for funding these research projects, a subsidiary typically receives the rights to 50% to 80% of net income derived from the commercialization of any discoveries arising therefrom, or a right of first refusal on future financing.

6. FIXED ASSETS

Fixed assets and related accumulated depreciation and amortization are classified as follows:

	1985			1984
	Cost $	Accumulated Depreciation/ Amortization $	Net $	Net $
Furniture and fixtures	436,101	135,950	300,151	360,407
Office equipment	402,371	136,326	266,045	295,205
Leasehold improvements	394,316	79,529	314,787	358,644
	1,232,788	351,805	880,983	1,014,256

7. LEASE OBLIGATIONS

The Corporation is committed to payments, under operating leases, for approximately $5,800,000.

The minimum annual rental payments over each of the next five years are as follows:

	$
1985-86	621,000
1986-87	702,000
1987-88	732,000
1988-89	846,000
1989-90	899,000

8. SUBSEQUENT EVENTS

(a) Subsequent to March 31, 1985, the Corporation received $20 million in investment funds from the Province of Ontario which are reflected as due from the Province of Ontario. These funds have been invested as a non-interest bearing advance to IDEA Innovation Fund Inc. for the purpose of making future investments directly or through its affiliated companies.

(b) Also subsequent to March 31, 1985, the Corporation terminated four senior executives. Under the terms of their employment contracts, the Corporation is committed to pay termination settlements to a maximum of $333,000.

(c) Subsequent to year end subsidiaries of the Corporation committed funds to seven investments totalling $2,630,000.

9. COMPARATIVE FIGURES

Certain of the 1984 figures have been reclassified to conform with the 1985 financial statement presentation.

IDEA CORPORATION

CONSOLIDATED SCHEDULE OF INVESTMENTS AND OUTSTANDING COMMITMENTS
FOR THE YEAR ENDED MARCH 31, 1985

Investment	Yield and Maturity (Note b)
Syndicated Funds :	
Derlan Industries Limited Preference Shares	
Middlefield Capital Fund Units in an unincorporated trust	31.2% of annual net income. The Fund will be wound up on December 31, 1994, unless the Fund manager exercises the three one year extensions.
Debt Instruments :	
Note receivable -	
RMS Industrial Controls Inc.	Chartered bank prime + 3/4%; Maturity extended to June 30, 1985 from May 31, 1985
Convertible Debentures (Note a)	
Dalsa Inc.	Interest-free until May 6, 1985 Chartered bank prime to May 6, 1986, Chartered bank prime + 1% to maturity on December 31, 1986
General Comminution Inc.	Interest-free
Genuine Plastic Products Ltd.	Chartered bank prime Matures June 30, 1986
Neo-Visuals Inc.	Chartered bank prime + 2% Matures in two equal instalments on July 24 and October 10, 1989
Telepanel Inc.	Interest free to September 30, 1985 Chartered bank prime to September 30, 1986 Chartered bank prime + 1% to maturity on December 31, 1987

Investment March 31/85 $	Funding During the Year $	Provision for Loss on Investment $	Investment March 31/85 $	Additional Commitment $
1,431,246	30	-	1,431,276	5,700,000
-	3,349,088	-	3,349,088	6,666,000
1,431,246	3,349,118		4,780,364	12,366,000
250,000			250,000	400,000
-	350,000		350,000	
-	30,000	30,000	-	-
50,000	50,000		100,000	236,500
	72,000		72,000	17,000
	350,000		350,000	650,000
50,000	852,000	30,000	872,000	903,500

Investment	Yield and Maturity (Note b)
Equity Investments :	
Engineered Blends Ltd.	
Common Shares	
Preference Shares (note b)	
Mosaid Semiconductor Corporation	
Common Shares	
R & L Filtration Ltd.	
Common Shares	
Special Shares	
Synerlogic Inc.	
Common Shares	
Telemus Electronic Systems Inc.	
Common Shares	
Preference Shares	
Toronto Medical Corporation	
Common Shares	
Preference Shares	
TOTAL	

NOTES :

(a) The timing and rates of conversion vary with each convertible debenture.

(b) None of the common, special or preferred shares has an indicated dividend rate except for the preference shares of Engineered Blends Ltd. which have a non-cumulative dividend rate of 7%.

Investment March 31/85 $	Funding During the Year $	Provision for Loss on Investment $	Investment March 31/85 $	Additional Commitment $
	400	400		
	609,574	609,574		
	180,006	180,006		
	51		51	
	92,197		92,197	675,085
	225,000		225,000	
	15,392		15,392	
	640,717		640,717	
	173,188		173,188	
	321,635		321,635	
	2,258,160	789,980	1,468,180	675,085
1,731,246	6 459,278	819,980	7,370,544	14,344,585

Ontario

Office of the
Provincial
Auditor

Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1A2
416 965-1381

To the IDEA Corporation and
to the Minister of Industry, Trade and Technology.

I have examined the consolidated balance sheet of IDEA Corporation as at March 31, 1985 and the consolidated statements of operations and deficit and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion these consolidated financial statements present fairly the financial position of the Corporation as at March 31, 1985 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A report on the audit has been made to the Corporation and, in accordance with section 17 of The IDEA Corporation Act, 1981, to the Minister of Industry, Trade and Technology.

Toronto, Ontario,
July 19, 1985.

D.F. Archer, F.C.A.,
Provincial Auditor.

BOARD OF DIRECTORS AT MARCH 31, 1985

H. Ian Macdonald, Chairman
President Emeritus
York University

Rodrigue J. Bilodeau*
Chairman and Chief Executive Officer
Honeywell Limited, Willowdale

Charles J. Carter
Chairman and President
Great Lakes Forest Products Limited
Thunder Bay

Dr. Gail C.A. Cook*
Executive Vice-President
Bennecon Ltd., Toronto

Desmond Cunningham
President
Gandalf Technologies Inc., Manotick

P. Ronald Doyle
President
Sault College of Applied Arts
and Technology, Sault Ste. Marie

George S. MacDonell*
Deputy Minister
Ministry of Industry and Trade
Government of Ontario, Toronto

John C. McMillan*
Interim President
IDEA Corporation, Toronto

Dr. Peter Morand
Director, Research Services
University of Ottawa, Ottawa

William Reno
Director of Research and Education
United Food and Commercial Workers
Ontario Retail Council, Rexdale

Eleanor Ryan
Former Vice-President
Ontario Federation of Labour
Ottawa

Douglas L. Sedgwick*
Vice-President, Operations
Magna International Inc., Toronto

Dr. Gordon R. Slemon
Dean
Faculty of Applied Science
and Engineering
University of Toronto, Toronto

* Terms concluded after March 31, 1985.

Notes: Mr. D. Antony Brebner, Partner, Laketon Investments, Dr. Harry Fisher, then Deputy Minister of Colleges and Universities, and Dr. Brian E. St. John, past President of IDEA Corporation, retired from the Board during the course of the fiscal year 1984/85.

Following the fiscal year-end, several new appointments were made to the Board:

M. Asgar Ally
Chartered Accountant

Peter H. Barnes
Assistant Deputy Minister
Innovation and Technology
Ministry of Industry, Trade and Technology
Government of Ontario, Toronto

Denzil J. Doyle
President
Doyletech, Kanata

Dr. George R. Podrebarac
Deputy Minister
Ministry of Colleges and Universities/
Education
Government of Ontario, Toronto

John F. Wegener
Vice-President, Human Resources
Wood Gundy Inc., Toronto